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FM AMEMBASSY KUALA LUMPUR

TO RUEHC/SECSTATE WASHDC IMMEDIATE 3209

INFO RUCNASE/ASEAN MEMBER COLLECTIVE PRIORITY

RUEHBJ/AMEMBASSY BEIJING PRIORITY 2633

RUEHUL/AMEMBASSY SEOUL PRIORITY 1776

RUEHKO/AMEMBASSY TOKYO PRIORITY 2674

S E C R E T SECTION 03 OF 04 KUALA LUMPUR 000771

SIPDIS

E.O. 12958: DECL: 09/09/2019

TAGS: MY PGOV ECON PREL PMIL

SUBJECT: SCENESETTER FOR DEPUTY SECRETARY STEINBERG'S VISIT  
TO MALAYSIA

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\* Missing Section 001 \*  
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\* Missing Section 002 \*  
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Malaysian law enforcement, which is overly reliant on an intelligence approach to CT, so that Malaysia has yet to properly prosecute, convict, and sentence any individual; rather, they are all detained under the ISA. That said, while the Government has committed to a review of the ISA, there are no immediate plans to weaken or eliminate it.

Malaysia has cooperated with Thailand regarding the insurgency in southern Thailand, but sees the problem mainly as an internal Thai political challenge. Malaysia previously supported the peace process between the Philippine Government and the MILF in the southern islands, but withdrew its contingent for the International Monitoring Team in Mindanao in late 2008. The Ministry of Foreign Affairs has indicated that Malaysia is considering a return to Mindanao, but has not specified a time frame.

#### Global Financial Crisis and Economic Reforms

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¶8. (SBU) Malaysia's economy is expected to contract around five percent in 2009 and recover slowly in 2010. The global recession led to dramatic declines in exports and investment this year in Malaysia, resulting in a recession since the first quarter of 2009. Malaysian policy makers responded with monetary easing and two fiscal stimulus packages worth a total of USD 19 billion, but the Central Bank does not expect a rebound until the fourth quarter of 2009 because Malaysia remains dependent on the resumption of growth in its key export markets, including the U.S., the EU, and Japan. Hence, the political stakes are high for Najib, who must ensure that the economy continues to provide growth and prosperity to a large middle class. Najib has used the recession to push forward economic reforms needed to keep Malaysia competitive. He announced reforms in the services sector to some race-based equity requirements and some liberalization in the financial services sector. Though of limited immediate economic impact, these reforms send a powerful message that ethnic Malays increasingly will have to compete on a level playing field with other races in Malaysia, and, perhaps over time, with foreign competitors. Najib's recognition that reforms are needed also presents opportunities for our trade and investment agenda specifically with regard to government procurement and

competition policy, among others. Malaysia continues to signal its desire to resume negotiating a bilateral Free Trade Agreement with us even though Najib has yet to deliver on a cabinet decision to negotiate sensitive chapters on government procurement and competition policy. He has authorized informal discussions on these topics. AUSTR Weisel proposed informal discussions on these and other elements of the agreement during her September visit to KL to ensure both sides continue to make progress, even as USTR's trade policy review continues. The Malaysian side is considering that proposal.

Political Discord at Home

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¶9. (C) Najib came to power in the midst of domestic political discord that raises long-term questions regarding the continued dominance of his ruling UMNO party, in power since independence in 1957. He replaced former PM Abdullah Badawi, who was eased out after the ruling National Front (BN) coalition lost its perpetual two-thirds majority control of Parliament--and five out of 13 states--in the March 2008 general elections. Najib is determined to restore BN's dominance, but he must contend with rising public expectations for better governance and a resurgent political opposition, led by charismatic former Deputy Prime Minister Anwar Ibrahim. Najib will find it difficult to identify and implement popular political reform measures while still maintaining UMNO's tight control over state levers of power and patronage. With a weakened ruling coalition, a maturing opposition, and a more sophisticated electorate with access to more information, Malaysia's polity is struggling to adjust to a new and more competitive political environment. The ongoing proceedings against Anwar (adjourned until November 3), accused of sodomy in a politically-motivated prosecution, continue to generate political friction domestically and internationally.

¶10. (SBU) On September 14, Najib told members of the diplomatic community that he was committed to promoting Malaysia as a model Islamic country with multicultural tolerance. It is notable that he felt the need to assure the assembled diplomats. His comments came amid increased concerns over religious intolerance. Two recent incidents highlight this concern and have sparked a public outcry. A Muslim woman convicted of drinking a beer in a hotel lobby of

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a religiously conservative state was set to receive a punishment, now suspended, that included 6 lashes with a bamboo cane. International media attention embarrassed the GOM, which is trying to quietly drop the case, but the effort is complicated because Shari'a law is administered at the state level. Religious discord was also fomented on August 28 when a group, claiming to be local Muslim residents, protested the placement of a Hindu temple into their neighborhood by dragging a severed cow-head on which they stomped and spat in front of riot police. Although the police took little action against the Muslim perpetrators, they reacted swiftly to disperse and arrest Hindu participants of the peaceful candlelight protest organized in response. Some of the "cow-head incident" demonstrators were later arrested after much protest in the blogosphere.

Trafficking in Persons

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¶11. (SBU) On June 16, the U.S. released the 2009 Trafficking in Persons (TIP) report, which classified Malaysia as a Tier 3 country, for lack of significant efforts to combat human trafficking. In the months following Malaysia's classification as Tier 3, the Government took constructive measures on a number of fronts to address the trafficking issue. Post has recognized a significant shift in the GOM approach to TIP and an improved level of discourse with the USG on this sensitive issue. The GOM has arrested five

immigration officials in connection with the trafficking of Burmese refugees at the Thai border, and such trafficking apparently has ceased; announced that the TIP Council would be releasing a TIP Action Plan in the coming months; issued prosecutorial directives on the handling of TIP cases under the guidance of the Attorney General's Chambers; and has negotiated a new MOU with Indonesia (to be announced shortly) that would drop any provisions for employers to hold migrant workers' passports. TIP Ambassador CdeBaca visited Kuala Lumpur August 25-27, and met with several senior government officials, including Foreign Minister Anifah Aman. The Embassy is coordinating a follow-on action plan for engaging the GOM on measures needed in the coming months to address human trafficking.

KEITH